

CASINOS IN MICHIGAN

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Since the early 1990s, casino gaming in the United States (U.S.) has expanded dramatically. According to *International Gaming & Wagering Business*, U.S. gross wagering at all casinos, including Indian casinos, grew from \$244.5 billion in 1991 to \$584.1 billion in 1998. Gross casino revenues, which is gross wagering less payouts or prizes, totaled \$29.5 billion in 1998. Casino gaming also has grown significantly in Michigan, which had seven casinos in 1990 and currently has 20 casinos. Two casinos have recently opened in Detroit and one more is expected to open within the next few months.

Figure 1 depicts the 59 existing casinos located in the Great Lakes region. The Detroit metropolitan area, which has 4.5 million people, is the largest metropolitan area in the U.S. with casinos. In addition, the City of Detroit is geographically next to the Windsor Casino. According to a KPMG study, 82% of all visits to Casino Windsor are made by residents of the United States.

Table 1 depicts a detailed list of Michigan's existing and proposed casinos, as well as the number of slot machines and table games. This article includes a review of the Native American casinos in Michigan, the temporary or interim Detroit casinos, the plans for the permanent Detroit casinos, and an estimated fiscal impact of the Detroit casinos.

Native American Casinos in Michigan



Native American or Indian casinos with high stakes bingo have existed in Michigan's Upper Peninsula since 1984. Under the 1988 Indian Gaming Regulatory Act (IGRA), the Federal government authorized Native American tribes to operate casino gaming, provided for a state government role, and defined three classes of gaming. The state government role is to negotiate compacts with tribes for Class III gaming. Class III includes slot machines, blackjack, pari-mutuel racing, jai alai, and electronic games, such as video poker. Class III also includes "banking" card games, in which players play against the house and the house acts as a banker. In Michigan, in 1993, seven tribes under the Tribal-State Gaming Compacts and a subsequent consent judgment, were allowed to operate casinos and were required to pay 8% of net winnings from electronic video games and slot machines to the State and 2% to the local units of government in the immediate vicinity. Net win or gross gaming revenue is the total amount wagered minus the total amount paid to winners.

Table 1
MICHIGAN'S EXISTING AND PROPOSED CASINOS

Casino	Location	Year Open	Slots	Tables
<u>Existing - Indian Casinos</u>				
11 - Indian Casinos	Upper Peninsula	1984-1994	5,612	179
Leelanau Sands Casino/Eagle's View Slot Room Casino	Suttons Bay	1984	945	28
Turtle Creek Casino	Williamsburg	1997	611	18
Soaring Eagle Casino & Resort	Mt. Pleasant	1987	4,200	84
Little River Casino	Manistee	1999	780	20
Victories Casino Entertainment Center . .	Petoskey/Mackinaw City	1999	550	0
<u>Existing - Non-Indian Casinos</u>				
MGM Grand Detroit Casino	Detroit	1999	2,300	80
MotorCity Casino	Detroit	1999	2,618	136
<u>Proposed - Indian Casinos</u>				
Huron Band of Potawatomi Indians	Battle Creek	2002	unknown	unknown
Pokagon Band of Potawatomi Indians . .	New Buffalo	2002	unknown	unknown
<u>Proposed - Non-Indian Casinos</u>				
Greektown Casino	Detroit	2000	2,300	90

Source: Michigan Gaming Control Board

Compacts between Native American tribes and the State of Michigan stipulate that payments to the State continue as long as the original seven Indian tribes retain the exclusive right to operate electronic video games or video lottery terminals. Payments to the local units continue regardless of additional competition. The exclusive right to operate electronic video games ended and the original seven tribes stopped payments to the State after June 30, 1999. However, two tribes dispute the date the payments ceased. Pending the result of litigation, these two tribes may have to make additional payments to the State. In fiscal year (FY) 1997-98, total payments to the State from the Indian tribes were \$44.3 million, reflecting a 29.1% increase from FY 1996-97. In FY 1998-99, total payments to the State increased 3.5% to \$45.8 million. The payments are deposited into the Michigan Strategic Fund, which is used for economic development purposes.

In December 1998, four additional Tribal-State Gaming Compacts were approved. Subsequent to the approval, the four compacts were declared unconstitutional by a circuit court judge. The status of the four compacts is still being litigated. These gaming compacts are similar to the agreements made by the initial seven tribes. However, these four tribes will pay 8% of their net win on Class III gaming to the Michigan Strategic Fund regardless of the existence of other casinos. In addition, the four tribes will pay \$50,000 (as opposed to \$25,000) annually for State oversight. The State oversight fee also will be adjusted for inflation annually. The Little River Band of Ottawa Indians opened its casino in Manistee on July 23, 1999. The Little Traverse Bay Band of Odawa Indians plans to open a permanent casino in Mackinaw City, but currently has a temporary facility in Petoskey, which opened briefly in July. The Petoskey casino was closed by an injunction, due to a conflict about the land in trust, but recently has reopened. The other two tribes are expected to open casinos in Battle Creek and near New Buffalo in approximately two years.

Temporary/Interim Detroit Casinos

In November 1996, Michigan voters approved the Michigan Gaming Control and Revenue Act (MGCRA), which permitted three casinos to operate in the City of Detroit. Subsequent to its passage, Public Act (PA) 69 of 1997 modified and expanded the MGCRA. The MGCRA, as well as other casino legislation, provides for State licensing and regulation, development agreements with the City of Detroit, and casino taxes, fees, and assessments.

All three Detroit casinos are expected to have temporary casinos open for business within the next four months.

The first two temporary casinos, MGM Grand and MotorCity Casino, opened July 29, 1999, and December 14, 1999, respectively. The Greektown Casino is expected to open in April 2000. In total, the cost to build or renovate buildings to house the three temporary casinos will be approximately \$520 million. The gaming space in each of the temporary casinos is limited to a maximum of 75,000 square feet. The MGM Grand Casino has three restaurants and 3,300 parking spaces available, while the MotorCity Casino has four restaurants and 3,000 parking spaces. The Greektown Casino will have one restaurant and 1,100 parking spaces. The Greektown Casino is the only temporary casino that will be located in an established area, which has existing shops, restaurants, hotel accommodations, and parking spaces.

The development agreements are contracts between the City of Detroit and the three casinos. The development agreements include such items as permission for temporary casinos to operate while permanent facilities are built, the location of the permanent casinos, the permanent casino amenities and design details, and grants and monetary contributions to the City of Detroit. In addition, the development agreements stipulate that the developers must make a reasonable effort to purchase 30% of goods and services from businesses based in Detroit. The agreements also include the number of positions created and provide that 51% must be allocated to residents of the City of Detroit. It is estimated that each temporary casino will employ between 2,200 and 2,500 people. Under the development agreements, gaming operations in the temporary casinos must close and cease operations four years after the date of opening.

Permanent Detroit Casinos

The permanent casinos are to be built on the Detroit Riverfront and are to be located in close proximity to each other. The City of Detroit is in the process of acquiring riverfront land to develop the permanent casinos. Construction has not started for the permanent casinos, but is expected to take two to three years to complete. Combined, the three casinos are expected to invest \$1.8 billion and to employ 10,500 people in the permanent facilities. Each of the three permanent casinos is expected to have 100,000 square feet of gaming space, at least 800 hotel rooms, at least eight restaurants, retail space, ballroom and convention space, and additional amenities.

Estimated Fiscal Impact

It is difficult to determine the fiscal impact of the Detroit casinos, especially since the revenue act prevents the Michigan Department of Treasury from releasing gross gaming tax data. However, Senate Bill 892 would amend the revenue act and exempt the Detroit casinos from the confidentiality rules. The fiscal impact of the Detroit casinos depends on a variety of variables, some of which include the size (both square feet of gaming space and the number of slot machines and table games) of the casinos, the dates the casinos open, the degree to which the casinos are successful at generating gross gaming revenues from Michigan residents and tourists, and the change induced in other State and local tax sources and revenues.

As indicated in [Figure 2](#), the casinos pay the gross gaming tax, which is 18% of the casinos' adjusted gross receipts. The State's portion, 45% of the gross gaming tax, is deposited into the State Casino Gaming Fund, which is then deposited into the State's School Aid Fund (SAF) and is used for K-12 expenditures. The City of Detroit receives 55% of the gross gaming tax, which is used for patrol officers, public safety programs, capital improvements, economic development programs, youth development or quality of life programs, or taxpayer relief.

[Table 2](#) depicts the preliminary final gross gaming tax figures for FY 1998-99, along with the consensus estimates for FY 1999-2000 and FY 2000-01, based on the temporary Detroit casinos. Also included is the Senate Fiscal Agency estimate for FY 2003-04, which is the projected time period during which the permanent Detroit casinos are expected to be in operation for the entire fiscal year. In FY 1998-99, the State's portion of the gross gaming tax was \$6.0 million, which went to the SAF. In FY 1998-99, the lottery reduction due to the Detroit casinos was minimal. The State's portion of the gross gaming tax from the temporary casinos is estimated to total \$72.0 million in FY 1999-2000 and \$92.0 million in FY 2000-01. Due to casino competition for gaming dollars, lottery sales are expected to decline. Adjusting for an estimated reduction in lottery sales, changes the estimated net allocation from casino revenue to the SAF to \$56.2 million in FY 1999-2000 and \$72.9 million in FY 2000-01. In FY 2003-04, permanent casinos are expected to produce gross gaming revenues of \$1.66 billion.

Figure 2
FLOW OF DETROIT CASINO GROSS GAMING TAX

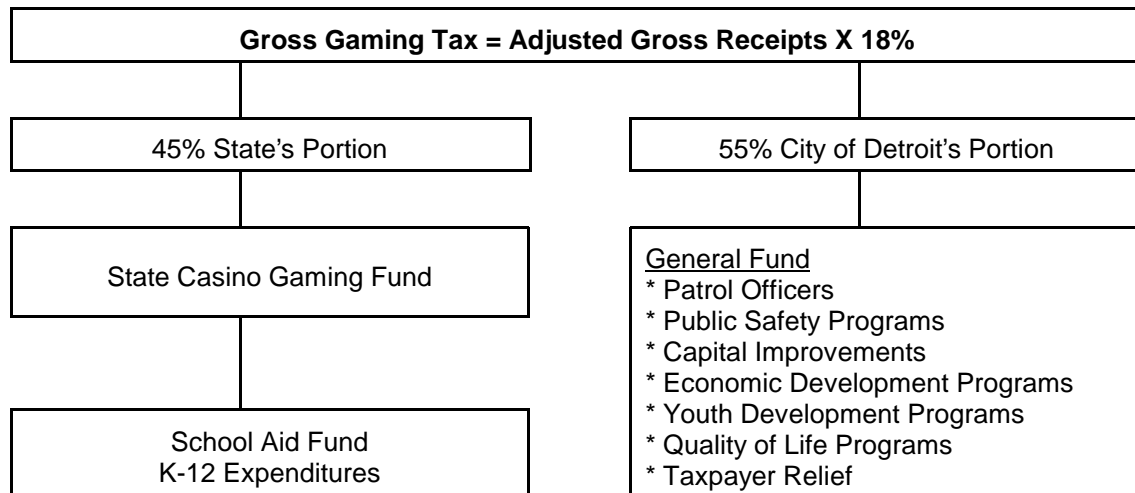


Table 2
ESTIMATED FISCAL IMPACT OF TEMPORARY AND PERMANENT CASINOS
FOR FY 1998-99, FY 1999-2000, FY 2000-01 AND FY 2003-04
(millions of dollars)

	<u>Temporary Casinos</u>			<u>Permanent Casinos</u>
	<u>Preliminary Final FY 1998-99</u>	<u>Consensus FY 1999-2000</u>	<u>Consensus FY 2000-01</u>	<u>SFA Estimate FY 2003-04</u>
Gross Gaming Revenue Estimate	\$74.0	\$888.7	\$1,136.4	\$1,655.7
Casinos - 18% Gross Gaming Tax	13.3	160.0	204.6	298.0
State Portion 45% (or 8.1%)	6.0	72.0	92.0	134.1
Detroit Portion 55% (or 9.9%)	7.3	88.0	112.5	163.9
State Gross Gaming Revenue	6.0	72.0	92.0	134.1
Lost School Aid Fund Lottery Revenue . .	(0.6)	(15.8)	(19.1)	(27.8)
Net Change School Aid Fund	5.4	56.2	72.9	106.3

This projected level of gross gaming revenues will generate an estimated \$134.1 million in State gross gaming tax revenue. After adjusting for the estimated lottery reduction, the net increase in SAF revenue will total an estimated \$106.3 million in FY 2003-04.

In addition to the gross gaming tax, fees and assessments are levied to cover the entire State and local costs of the casinos. Specifically, two State funds—the State Services Fee Fund, and the Compulsive Gaming Prevention Fund—receive casino payments to cover the various State costs associated with the casinos. These associated costs include regulatory, enforcement, and compulsive gambling programs. As indicated above, the gross gaming tax is initially deposited into the State Casino Gaming Fund and then is directed to the SAF. In addition, the casinos are required to pay an annual assessment of \$25.0 million (or \$8.3 million each), which is annually adjusted for inflation as measured by the Detroit consumer price index. The Compulsive Gaming Prevention Fund receives \$2.0 million of the total annual assessment for compulsive gaming prevention activities. The State Services Fee Fund receives \$23.0 million, which is used by the Michigan Gaming Control Board, the Attorney General, and the State Police to pay for regulatory, legal, and police services.

The development agreements between the City of Detroit and the casinos include the casino predevelopment and infrastructure costs. Also, the annual municipal services fee, which is equal to the greater of 1.25% of adjusted gross receipts or \$12.0 million (or \$4.0 million each), is expected to cover the City's recurring costs to host the casinos.

The full effects of Michigan's casinos, specifically the permanent Detroit casinos, will not be realized for a few years. The casino competition throughout the region and the U.S. will certainly continue and the success of Michigan's casinos will depend on their ability to attract and retain not only Michigan residents, but also out-of-state tourists.